

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 TRSE-00 SIL-01 LAB-04 EB-08 AID-05

NSCE-00 CIAE-00 DODE-00 PM-05 H-01 INR-10 L-03

NSAE-00 PA-01 SP-02 SS-15 SSO-00 INRE-00 ICAE-00

/070 W

-----121601 170310Z /66

O R 170055Z MAY 78

FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 056

INFO AMEMBASSY QUITO

AMEMBASSY LA PAZ

AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 4274

E.O. 11652: XGDS-2

TAGS: EFIN, PINT, PE

SUBJECT: CONTINUED REACTIONS TO AUSTERITY MEASURES

REF: LIMA 4213

1. SUMMARY: PUBLIC REACTION IN LIMA TO THE NEW AUSTERITY MEASURES CONTINUED RELATIVELY LIGHT MAY 16. 24-HOUR BANK STRIKE AND CONFUSION AT SUPERMARKETS WERE THE PRINCIPAL DEVELOPMENTS IN THE LOCAL SITUATION. HOWEVER, REPORTS OF MORE SERIOUS DISTURBANCES ARE COMING IN FROM OUTLYING TOWNS. IN HUANUCO VIOLENCE STEMMING FROM SPONTANEOUS LOOTING MAY 15 LEFT 3 DEAD; STREET DISTURBANCES ARE INCRASING IN CUZCO, AND CITY MOVING TOWARD A GENERAL STRIKE. THERE ARE ALSO LATE REPORTS OF DISTURBANCES IN AREQUIPA. RE POLITICAL PARTIES, APRA AND PPC WILL CRITICIZE GOVERNMENT MEASURES BUT STILL PURSUE ELECTIONS PEACEFULLY; PARTIES OF THE LEFT ARE REACTING VOCIFEROUSLY BUT NOTHING YET CONCRETE EXCEPT POSSIBLE ORGANIZED MARCH ON THE GOVERNMENT PLACE MAY 17 AT 5 PM. AS FOR LABOR CGTP (COMMUNIST) STILL DEBATING INTERNALLY A GENERAL STRIKE CALL; CTP (NON COMMUNIST/APRA) EXPECTED TO ISSUE COMMUNIQUE  
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MAY 17 ASKING FOR HIGHER WAGE ADJUSTMENT BUT SUPPORTING ELECTIONS. WAGE INCREASES OF 7-9 PERCENT ANNOUNCED BY GOP LATE MAY 15; NEW FINANCE MINISTER SILVA MADE INITIAL TV SPEECH CALLING FOR INTEGRITY AND COURAGE AND VOWING THAT PERU WILL NOT NEGOTIATE WITH THE INTERNATIONAL COMMUNITY "ON OUR KNEES." POLICE RESTRAINED BUT VERY TENSE; ARMY ON ALERT CABINET MEETING OBVIOUSLY ASSESSING NEXT STEPS FOR THE

GOVERNMENT. END SUMMARY.

2. SITUATION IN LIMA MAY 16. ALTHOUGH THE GUARDIA CIVIL AND THE MILITARY REMAIN TENSE, THEY ARE IN GENERAL SURPRISED AT THE ABSENCE OF SERIOUS PROBLEMS IN THE LIMA/CALLAO AREA. DURING MAY 16 THERE HAS BEEN A REPORT OF ONE MICROBUS BEING BURNT AND OF SOME DEBRIS AND ROCKS BEING THROWN ON MAJOR ROADS LEADING IN AND OUT OF LIMA. HOWEVER, THESE OBSTACLES WERE CLEARED QUICKLY AND NO RPT NO OTHER INSTANCES HAVE BEEN REPORTED AS OF LATE AFTERNOON. A POSSIOILITY FOR INFLAMATORY INCIDENTS EXISTS IN MULTI-BLOCK-LONG LINES OF PEOPLE WAITING TO BUY OUT COOKING OIL, CANNED MILK AND FLOUR AT OLD PRICES. EMBASSY HEARD THAT THOSE LINES WERE FORMING AT 2:00 A.M. THIS MORNING. THE BANK WORKERS' 24-HOUR PROTEST STRIKE APPEARED TO BE GAINING SUPPORT DURING MAY 16 ALTHOUGH SEVERAL BANKS REMAINED OPEN WITH A SKELETON STAFF. OTHER UNIONS, PARTUCULARLY THE TRANSPORT WORKERS, CONTINUE TO STUDY THE PRICE INCREASES AND ACCORDING TO ONE UNIONIST THERE IS A POSSIBILITY THAT THE TRANSPORT WORKERS WILL SEEK FURTHER INCREASES IN FARES TO COMPENSATE FOR GAS HIKES. THE GUARDIA CIVIL IS IN EVIDENCE IN MARKET AREAS AND ON THE MUNICIPAL BUSES AND SOME ARMORED PERSONNEL CARRIERS HABA BEEN LOCATED IN STRATEGIC POINTS AROUND TOWN. ALTHOUGH THE GUARDIA CIVIL REMAINS RESPONSIBLE FOR SECURITY, THE MILITARY, WHO ARE ON ALERT, ARE APPARENTLY BACKING THEM UP BY PROVIDING TROOPS ON THE OUTSKIRTS OF TOWN AND SUPPLYING SOME BACKUP  
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PATROLS.

3. OUTSIDE OF LIMA. A GUARDIA CIVIL OFFICIAL TOLD US THAT THREE PEOPLE WERE KILLED BY POLICE IN THE SIERRA TOWN OF HUANUCO MAY 15 WHEN CROWDS IN A MARKET AREA STARTED LOOTING. SIMILAR CONFRONTATIONS TOOK PLACE MAY 15 IN TRUJILLO AND CHICLAYO BUT WITHOUT SERIOUS CASUALTIES. CUZCO REPORTEDLY HAD A HOUSEWIVES' PROTEST MARCH MAY 15. TODAY TENSIONS WERE MOUNTING IN CUZCO AS ROCK-THROWING AND ROAD BLOCKS CAUSED MANY SHOPS TO CLOSE DOWN AND A GENERAL INDEFINITE STRIKE IS BEING ORGANIZED. A LATE REPORT FROM AREQUIPA ALSO INDICATES SERIOUS PROBLEMS THERE MAY 16 WITH NUMEROUS ARRESTS AND SOME INJURIES IN STREET DISTURBANCES; NORMAL TRAFFIC IS DISAPPEARING FROM THE STREETS; BLOCKADES HAVE BEEN THROWN UP IN SOME AREAS; AND POLICE CARS AND ARMORED PERSONNEL VEHICLES ARE CIRCULATING THROUGHOUT THE CITY.

4. PARTY REACTIONS. POLITICAL PARTIES ARE HOLDING MEETINGS TO DEVELOP REACTIONS TO THE NEW MEASURES. APRA REPORTEDLY WILL ENDORSE "RESONSIBILITY AND CONTINUING SUPPORT FOR THE GOVERNMENT'S RETURN TO DEMOCRACY," BUT MAY ALSO BE FORCED TO CRITICIZE AUSTERITY MEASURES SO AS TO WIN VOTES. PPC WILL

BE EXTREMELY CRITICAL OF THE AUSTERITY MEASURES, PARTICULARLY THE ABRUPT TERMINATION OF FOOD SUBSIDIES, BUT PRESUMABLY IN THE CONTEXT OF MAXIMIZING ITS VOTE IN THE JUNE 4 ELECTIONS, AN ACCION POPULAR LEADER DESCRIBED THE MEASURES AS "LAMENTABLE" AND "INDISPENSABLE" WHILE ANOTHER SAID THIS GENERAL CRISIS MADE EVEN MORE EVIDENT THE NEED FOR IMMEDIATE GENERAL ELECTIONS (THE STANDARD AP APOSITION). AMONG LEFTIST PARTIES, THE SMALL BUT ACTIVIT UDP ON EVENING TV MAY 15 ATTACKED THE NEW GOVERNMENT MEASURES AND CALLED FOR A "WAR AGAINST THE MILITARY". UDP MAY 16 WAS CALLING FOR A "MARCH ON THE (PRESIDENTIAL) PALACE" 5 P.M. MAY 17. MOSCOW-LINE COMMUNIST LEADER, PCP'S JORGE DEL PRADO, CONDEMNED THE GOP MEASURES BUT MADE NO RPT NO SPECIFIC CALLS TO ACTION.

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5. LABOR UNION REACTIONS:. THE APRA-RELATED CTP REPORTEDLY WILL CALL FOR A 10,000 VICE 5,400 SOLES PER MONTH MINIMUM WAGE BUT DOES NOT RPT NOT ENDORSE A PROTEST STRIKE AT THIS POINT. WE EXPECT THE OTHER NON-MARXIST LABOR CONFEDERATIONS, CNT AND CTRP, TO OPPOSE ANY GENERAL STRIKE PROPOSAL AS WELL. THE MOSCOW LINE CGTP HAS BEEN OCCUPIED WITH SERIOUS INTERNAL QUARRELS WITH "ULTRA LEFTISITS" INSIDE THE CONFEDERATION (THE LATTER ASSOCIATED WITH THE POLITICAL PARTY UDP). WE UNDERSTAND DISCUSSIONS OF A GENERAL STRIKE BY THE CGTP ARE BEING COMPLICATED BY THESE INTERNAL QUARRELS, AND THERE HAS BEEN NO OFFICIAL CGTP ANNOUNCEMENT.

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ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 PA-01 SP-02 SS-15 SIL-01 LAB-04  
EB-08 AID-05 NSCE-00 ICAE-00 INRE-00 SSO-00  
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O R 170055Z MAY 78  
FM AMEMBASSY LIMA  
TO SECSTATE WASHDC IMMEDIATE 057  
INFO AMEMBASSY QUITO

AMEMBASSY LA PAZ  
AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 4274

6. SILVA RUETE STATEMENT. PERU'S NEW ECONOMY AND FINANCE MINISTER, JAVIER SILVA RUETE, APPEARED TO BE PLAYING TO HIS DOMESTIC AUDIENCE DURING A SOMEWHAT RHETORICAL PUBLIC STATEMENT, WHICH HE GAVE FOLLOWING HIS SWEARING IN. AFTER NOTING THAT HE ASSUMED HIS NEW RESPONSIBILITIES DURING A GRAVE ECONOMIC AND FINANCIAL CRISIS "THE DEPT OF WHICH I WILL NOT HIDE," SILVA DECLARED THAT THE SITUATION MUST BE FACED WITH INTEGRITY AND COURAGE, WITHOUT SACRIFICING EITHER DIGNITY OR SOVEREIGNTY. IN A PARAGRAPH DESIGNED TO RESPOND TO CRITICS OF THE GOP FOR ADOPTING MEASURES TO MEET IMF CONDITIONS, SILVA SAID, " WE WILL NOT NEGOTIATE WITH THE INTERNATIONAL COMMUNITY ON OUR KNEES, BUT RATHER FROM THE HEIGHT OF OUR CONVICTION, AND WE WILL KNOW HOW TO FULFILL OUR OBLIGATIONS WITHOUT ANY FORM OF SURRENDER (ENTREGUISMO). NEITHER OUR RICHES NOR THE PERUVIAN CHARACTER OF OUR PUBLIC OR PRIVATE ENTERPRISES WILL BE SACRIFICED IN ANY WAY. THAT I GUARANTEE, FROM NOW ON BECAUSE WE ARE SUPPORTED BY THE PEOPLE."

7. SILVA RUETE PROMISED TO CONFRONT THE ECONOMIC CRISIS WITH AUSTERITY AND HONOR, AND HE STATED THAT HE WILL DEMAND THAT THE ENTIRE PUBLIC SECTOR, INCLUDING THE ARMED FORCES, SET THE  
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EXAMPLE. BASED ON THIS PREMISE, HE ADDED, HE PLANNED TO ASK THE PRIVATE SECTOR FOR ITS SUPPORT. LOOKING BEYOND THE CURRENT SITUATION, SILVA RUETE NOTED THAT PERU WILL SEEK "TO CONTINUE ALONG THE ROAD OF DEVELOPMENT SUPPORTED BY OUR OWN EFFORTS, ABOVE ALL SEEKING ALL MEANS TO COMBAT UNEMPLOYMENT AND ALL ASPECTS OF THE UNACCEPTABLE SOCIAL SEPARATION."

8. NEW ECONOMIC TEAM. THOUGH NOT YET FORMALLY ANNOUNCED, IT IS GENERALLY BELIEVED IN FINANCIAL CIRCLES HERE THAT CHANGES ARE IMMINENT IN THE GOP'S ECONOMIC TEAM. ALAN WAGNER A PROTEGE OF FOREIGN MINISTER DE LA PUENTE AND WHO IS NOW SERVING AS COUNSELOR AT THE PERUVIAN EMBASSY IN SANTIAGO, IS REMOVED TO REPLACE VICE MINISTER OF ECONOMY AND FINANCE DICK ALCANTARA. MANUEL MOREYRA, LONG ACTIVE AS A MINISTER OF ECONOMY AND FINANCE AND CENTRAL BANK ADVISOR, IS REPORTEDLY TO REPLACE GERMAN MELENA AS PRESIDENT OF THE CENTRAL BANK, WHILE ALONSO POLAR, NOW DEPUTY GENERAL MANAGER OF THE BANCO CONTINENTAL (EX-CHASE MANHATTAN) IS RUMORED TO BE RETURNING TO HIS PREVIOUS POSITION (UNDER BARUA AND SANTISTEBAN) AS GENERAL MANAGER OF THE CENTRAL BANK, REPLACING LUIS BORDO, WHO WOULD STAY ON AS HEAD OF CONITE. IT IS LESS CERTAIN WHETHER THERE WILL BE EARLY CHANGES AT THE BANCO DE LA NACION. THE

INCUMBENT PRESIDENT, TOLA, MAY WELL STAY ON, ALTHOUGH THERE ARE UNCONFIRMED REPORTS THAT HE MAY BE REPLACED BY THE SOMETIMES CONTROVERSIAL ALVARO MEANESES.

9. WAGE INCREASES. IN THE EVENING OF MAY 16 THE GOP ANNOUNCED GENERAL SALARY AND WAGE INCREASES IN ORDER TO "COMPENSATE" FOR THE HIGHER COST OF LIVING CAUSED BY THE REMOVAL OF SUBSIDIES FROM FOODSTUFFS AND INCREASES IN THE PRICE OF GASOLINE AND TRANSPORT FARES. DECREE LAW 22187 INCREASES WAGES ON PUBLIC SECTOR EMPLOYEES FROM S/.500 PER MONTH AT THE TOP GRADE TO S.2,000  
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PER MONTH AT THE BOTTOM LEVEL. FOR THE FIRST STEP IN EACH GRADE

LEVEL THE INCREASES CONFERRED BY THE DECREE LAW ARE AS FOLLOWS:

GRADE	PRESENT SALARY	INCREASE
I	30,000	500
II	25,800	800
III	21,600	1,000
IV	17,800	1,200
V	13,600	1,500
VI	9,400	1,700
VII	5,400	1,900

10. DECREE LAW 22188 INCREASES PRIVATE SECOTR WAGES BY S.1,500 PER MONTH OR S/.50 PER DAY. HOWEVER, WORKERS ALREADY RECEIVING THE MAXIMUM LEGAL WAGE WILL NOT RECEIVE THIS INCREASE. OUR PRELIMINARY ANALYSIS INDICATES THAT AUTHORIZED WAGE INCREASES APPROXIMATE AN AVERAGE OF 6.7 PERCENT IN PUBLIC SECTOR AND PERHAPS 9 PERCENT IN THE PRIVATE SECTOR, ALTHOUGH SHARPLY PROGRESSIVE PARTICULARY IN THE PUBLIC SECTOR. GOP PROJECTS THAT IMPACT OF WAGE INCREASES FOR PUBLIC SECTOR EMPLOYEES APPROXIMATES S/6.3 BILLION (AN ESTIMATE BASED UPON MAY 1 IMPLEMENTATION OF WAGE INCREASE), WHICH WAS EARLIER INCLUDED IN APRIL ESTIMATE OF S/ 7.1 BILLION INCREASE IN CENTRAL GOVERNMENT EXPENDITURE. MOREOVER, THIS GROSS EXPENDITURE WOULD BE SOMEWHAT OFFSET BY INCREASED TAX REVENUES EMANATING FROM THE WAGE INCREASE.

11. EXCHANGE RATE HIT 150/\$ LATE AFTERNOON MAY 16 AFTER HAVING OPENED AT 146.50/\$.

12. COMMENT: THE INITIAL RELATIVELY LIGHT PUBLIC REACTION IN LIMA COULD INFLUENCE DECISIONS BY LEFT WING GROUPS MOST APT TO FOMENT EARLY DISRUPTION. HOWEVER, THE SITUATION IS VERY TENSE BELOW THE APPARENT SURFACE CALM. THE MICROBUS  
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DRIVERS ARE VERY VOLATILE GROUP AND UNHAPPY ABOUT HOW SMALL THEIR FARE INCREASE IS, AND DISTURBANCES IN CUZCO (A LEFTIST STRONGHOLD) AND OTHER PROVINCIAL CAPITALS COULD BE CONTAGIOUS.

13. THE IMPACT OF THE POLITICAL PARTIES CUTS BOTH WAYS. MOST, INCLUDING THE APRA AND PPC, HAVE A STAKE IN THE ELECTIONS AND WOULD WANT TO AVOID A PUBLIC REACTION THAT WOULD FORCE POSTPONEMENT OF THE ELECTIONS. HOWEVER, OUTSPOKEN CRITICISM OF THE AUSTERITY MEASURES TO GAIN VOTES, INCLUDING USE OF FREE TV TIME FOR THE CANDIDATES, COULD BECOME HIGHLY INFLAMMATORY.

14. SHORT OF SOME MAJOR INCIDENT, WE EXPECT IT WILL TAKE ANOTHER FEW DAYS BEFORE THE SEVERITY AND EXTENT OF REACTIONS TO THE AUSTERITY MEASURES BECOME CLEAR. THIS TIMING FOLLOWS THE PATTERN OF THE PIAZZA AUSTERITY PACKAGE OF JUNE 1977, WHERE THE MOMENTUM OF PROTEST WHICH IN THAT INSTANCE DID LEAD TO VIOLENCE TOOK MORE THAN A WEEK TO DEVELOP.  
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## Message Attributes

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